

Briefing for:
The President's Citizen Advisors on
The Mutual Security Program

25 October 1956

SINO-SOVIET BLOC AID PROGRAM

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DOCUMENT NO. _____
NO CHANGE IN CLASS. ☐
☐ DECLASSIFIED
CLASS. CHANGED TO: TS 90
NEXT REVIEW DATE: 1990
AUTH: HR 70-2
DATE: _____ REVIEWER: 059485

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A. Introduction

1. Soviet directed Bloc program for expanding economic relations with underdeveloped Free World countries moved into high gear in 1955.
2. This expansion economically advantageous because Bloc:
 - a. Needs additional raw materials due to shortages of own production and reserves (for example, bauxite, copper, textile fibers, rubber, and diamonds).
 - b. Can use additional agricultural products which are available as export surpluses in many underdeveloped countries.
3. Bloc's developing economy can now afford to exchange limited types of industrial equipment, highly desired by underdeveloped countries, for desired imports.

B. Bloc Foreign Economic Programs

1. Since early 1955, intra-Bloc and Bloc-Free World credits total over \$2.7 billion, of which almost \$1 billion are for military aid and about \$1.7 billion for economic projects. (Annual barter deals, military equipment for goods or cash, and the like, not included.)
2. By comparison, US mutual security aid, in FY 55 and 56, totaled \$5.5 billion, of which \$2.3 billion for military aid and \$3.2 billion for economic purposes.
3. Intra-Bloc loans since early 1955 more than \$1.4 billion. (see map).

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- a. Natural resource survey, Burma;
 - b. Roadbuilding and airfield construction, Afghanistan;
 - c. Economic planning, India;
 - d. Military advisors, Egypt;
 - e. Nuclear research, Indonesia.
6. Bloc trade with underdeveloped countries at a rate of \$1.5 billion in 1956, 90 percent increase over 1954.
 7. Bloc will have participated in trade fairs in 22 underdeveloped countries in 1956, contrasted to 16 in 1955.
 8. Bloc long-term aid is proving attractive to underdeveloped countries because their ambitious industrialization programs make continuity in flow of development capital essential.
 - a. India and Indonesia are examples of countries which have accepted long-term aid from the USSR assuring them a steady flow of capital goods.
 - b. Yugoslav statement last week highlights doubts as to usefulness of US aid which is "limited by time" and which "can be revised" at "every moment."
 9. In all underdeveloped countries, tremendous pressure for economic betterment. People as well as leaders convinced, rightly or wrongly; this requires rapid industrialization.
 - a. Though generally dedicated to political and individual freedom, they will not remain loyal to these concepts if price is economic stagnation.
 - b. Inclined to conclude that industrialization by free

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enterprise methods took 150 years in Europe and the US and that they can't wait that long. Inclined to be suckers for the Soviet line that the USSR made itself great industrial power in one generation, starting from scratch and with no assistance from West.

- c. These Asian countries tend to forget that the USSR has built upon pioneering work in the US and Western Europe and also to ignore cost such as stagnating agriculture and denial of consumer wants.

C. Comparison of Growth Rates of China and India

1. In this connection, underdeveloped countries observe with interest the relative growth rates of India and Communist China.
2. During First Five-Year Plans (1953-57 for China, 1951-55 for India) China's total national production will probably increase twice as fast as India's.
3. During the Second Five-Year Plans (1958-63 and 1956-61 respectively) China's planned rates of increase are nearly 75 percent greater than those of India.
4. China's industry is growing almost 3 times as rapidly as India's during the First Five-Year Plan, and in the next 5 years China's industrial growth rate will be twice that of India.
5. Chinese rates of growth in production of such commodities as coal, steel, electric power, cement, and paper have in recent years outstripped those of India, while India has

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been ahead in cotton, cotton yarns, and foodgrains.

(see bar chart)

6. In the Second Five-Year Plan, India plans a growth rate for steel greater than China.

D. Bloc Foreign Trade Capabilities

1. USSR now world's second industrial power (machine tool production exceeds US's).
2. Of over \$5 billion of obsolescent military equipment stocks of USSR, including TU-4's (B-29) and 3 jet aircraft models, only \$300 million so far traded to underdeveloped countries.
3. Bloc ability to pay for imports rests on level of exports and gold and foreign exchange reserves.
 - a. Although trade was roughly in balance in past years, 1955 Bloc exports to Free World increased 32 percent over 1954, while imports increased only 16 percent.
 - b. USSR has \$4 billion in gold reserves with annual production of \$175 million (domestic nonmonetary consumption only 5 percent of annual production).

E. Conclusions

1. Bloc economic program in underdeveloped countries used to increase influence and gain strategic, political, and economic advantage.
2. Bloc programs aimed at weakening existing military and political alignments in the Free World (for example, Yugoslavia and Egypt).
3. Total Bloc loans and grants to underdeveloped countries

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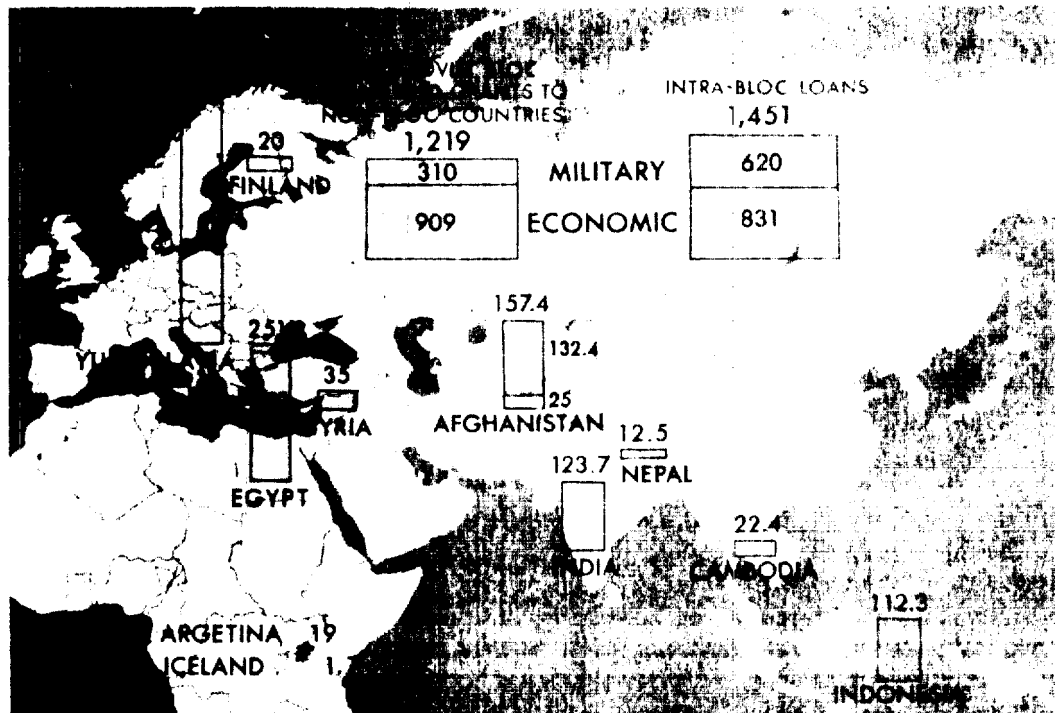
represents less than $\frac{1}{2}$ of 1 percent of Bloc gross national product and less than 1 percent of industrial production.

4. Underdeveloped countries lack capital and trained personnel for rapid economic development.
 - a. In past, unable to obtain sufficient capital in Free World due mainly to lack of Western markets for exportable surpluses.
 - b. Bloc is taking such surpluses (for example, Egyptian cotton and Burmese rice) in exchange for development capital.
5. The US program for combating Communist subversion is helping to strengthen and support police and intelligence in various underdeveloped countries.
6. The long-range character of much of the Bloc program is attractive to the underdeveloped countries because continuity in flow of capital is essential in their development plans.

- 6 -

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**FOREIGN LOANS AND GRANTS
OF THE SINO-SOVIET BLOC 1955-1956**
MILLIONS OF DOLLARS



SINO-SOVIET BLOC AID TO NON BLOC COUNTRIES
MILLIONS OF DOLLARS

SOURCE	SELECTED PROJECTS
USSR East Germany Czechoslovakia Poland	Aluminum complex, mining equipment Aluminum complex Capital goods. Transportation equipment, mining machinery.
USSR, Czech, Poland	Arms, military equipment, and ceramics plant.
USSR Czechoslovakia USSR, Czech	Road construction, hydroelectric stations, irrigation works, airfield construction. Cement plant, ceramic plant. Arms, military equipment.
USSR East Germany Czechoslovakia	Steel mill. Film factory. Sugar Factory.
USSR East Germany Czechoslovakia	Line of credit. Sugar factory. Tire plant.
USSR, Czech, Poland	Arms, military equipment.
Communist China	Grant, cement plant.
USSR	Gold loans.
USSR	Transportation equipment.
Communist China	Grant for economic development
Soviet Bloc	Hydroelectric plants.

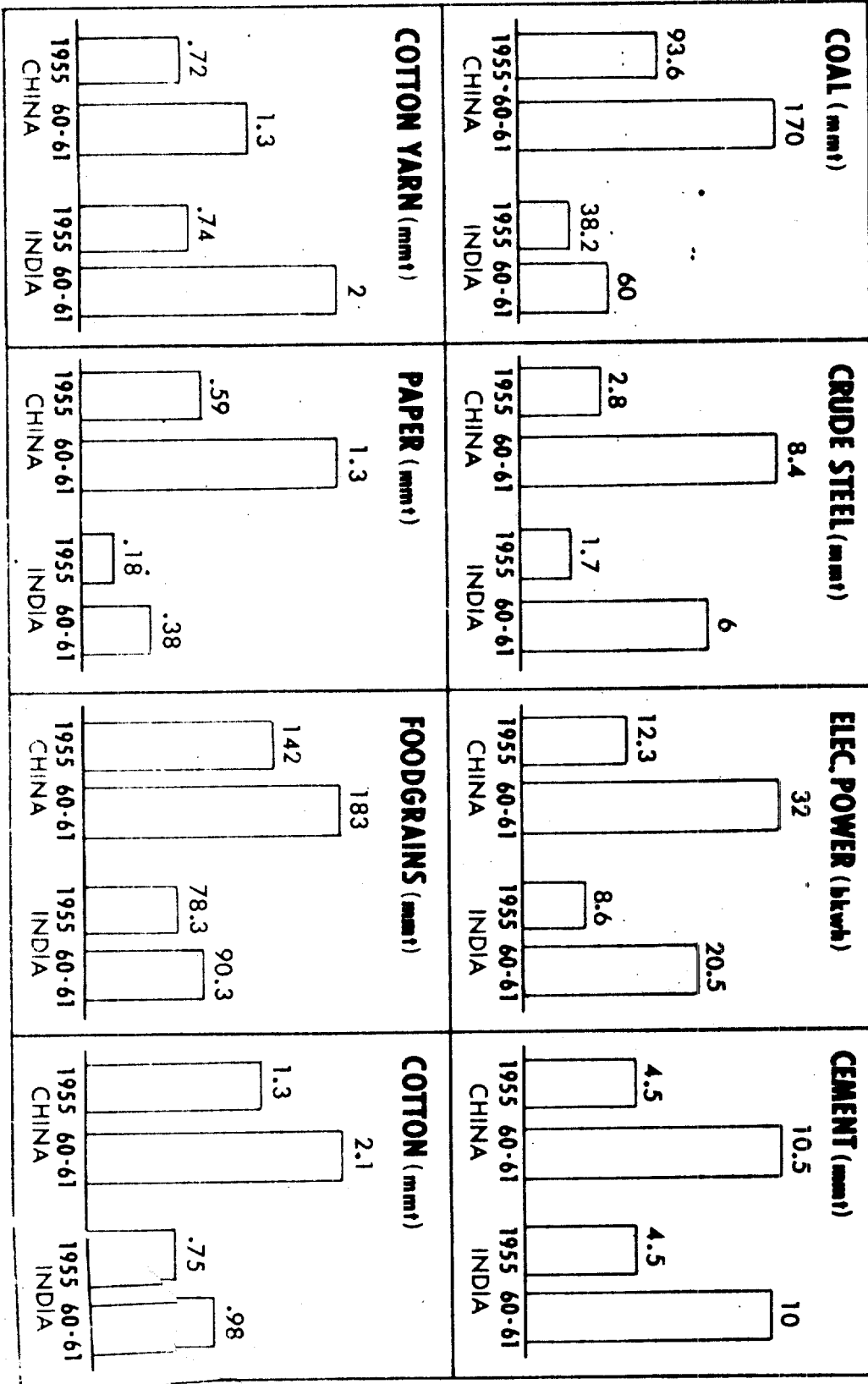
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PRODUCTION OF SELECTED COMMODITIES : CHINA - INDIA

ACTUAL PRODUCTION 1955 PLANNED PRODUCTION JULY 1960 - JUNE 1961



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